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The Industrial Conference.

THE President's industrial conference was broken up by the withdrawal of the labor group headed by Mr. Gompers. This group had compelled the conference to occupy itself almost wholly with a question of such complicated nature that an agreement upon it was not to be expected, and would have carried but little weight if accomplished.

The commission consisted of a small group of gentlemen named by the President, undoubtedly for the purpose of exercising a conciliatory and helpful influence upon industry in the present emergency. It is generally recognized that the pressing need of society is not the immediate settlement of all long-standing questions under dispute, but an increased production of the goods of common necessity. The commission had no authority to impose any new rules upon industry; its only hope of accomplishing anything was by avoiding old controversies and concentrating attention upon proposals likely to enlist general co-operation. The situation of society the world over is similar to that which would exist if a great fire had swept over a city, rendering thousands of people homeless and disorganizing the industries. If in such a case a commission consisting of representative citizens of all classes and occupations was called together to help restore the normal life of the community, it would be bad policy for that commission to begin by trying to settle all the questions that had vexed the community prior to the fire, including all the problems that have been in course of evolution from the beginnings of society.

Social Evolution.

The relations between employers and employes in all the industrial establishments of this country cannot be fixed in a conference of this kind. They must be worked out in the industries by the initiative of the parties directly interested and with perfect freedom of action. No authoritative pressure or compulsion is desirable, because it is likely to interfere with the best results, but light is wanted on the subject from every possible source. Assuming that all parties have the same purpose in view, i.e., the achievement of harmony and the greatest possible productivity in industry, we must believe that they will gradually find policies upon which they can agree. But they cannot be coerced into agreement or harmonious action.

It is easy to exaggerate the significance of action by such a conference. If the President's choice in making up the membership had happened to fall upon certain other gentlemen instead of the ones selected, the vote upon the critical resolution easily might have been different, but does anybody suppose that the course of industry in the United States would have been very much affected thereby? Social development is not greatly influenced by such casual incidents.

Mr. Gompers' Resolution.

The resolution on which the conference split was offered by Mr. Gompers as follows:

"The right of wage earners to organize without discrimination, to bargain collectively, to be represented by representatives of their own choosing in negotiations and adjustments with employers in respect to wages, hours of labor, and relations and conditions of employment is recognized."

The reader will naturally wonder what all the contention is about. Does not labor now have the right to organize, and as a matter of fact is not Mr. Gompers at the head of a very powerful federation of labor organizations? Nobody has disputed the right of labor to organize and to bargain collectively. But the methods of bargaining are of some complexity, and Mr. Loree, speaking for the employers' group in the conference, said that it "would not be led into approving a collective bargaining resolution which did not clearly define the methods and circumstances under which it would take place."

The employers' group took this position because Mr. Gompers was avowedly seeking to lay down a rule under which the United States Steel Corporation would be compelled to recognize the officials of the American Federation of Labor as the representatives of its employes, although it is now proved that the Federation officials have no standing with a majority of the Corporation's employes.

The Attempt to Bargain for the Steel Employes.

The facts as to the situation in the steel industry are now well known. The Federation of Labor had been for a year conducting a campaign to bring the steel employes into its camp, and obtain authority to represent them in collective bargaining. It delegated to this work a committee made up in part at least of radical agitators, whose real intent is to overturn the existing order of society, and whose efforts were consistently directed toward inspiring the workmen with a spirit of class hatred and hostility toward their employers. The strike has put the pretensions of this organization committee to the test. It has shown that the committee never did represent a majority of the employes in the industry, and that it had very little standing with the American employes, although many of the latter were thrown out of work by the absence of other classes of labor.

In short, the issue forced by Mr. Gompers upon the conference was not over the right of labor to organize or bargain collectively but over the right of employers to decline to negotiate with outsiders whom they have reason to believe do not in any sufficient or proper sense represent their own employes. It was an attempt to compel the steel companies to negotiate with Fitzpatrick, Foster and Ryan, regardless of the wishes of the great body of employes. It is obvious that recognition by the companies would be of great assistance to the organization committee in bringing the employes into line.

Collective Bargaining Not a Panacea.

The excuse for making an issue over this phase of collective bargaining would have to be that it was necessary to peace and efficiency in industry, and thereby would promote the general welfare. The argument is that the peace of the community is disturbed by the steel strike, but the Commission was confronted with evidence on every hand that collective bargaining through the Federation of Labor does not assure industrial peace. Two great strikes have been on in New York City in which the authority of the unions was disregarded by the members of the organizations, and the employers and public put to great inconvenience and loss. A witness before the Senate Committee investigating the subject said a few days ago that of 70 recent strikes within the Federation of Labor, only eight had been authorized. In short, collective bargaining is not making a record just now to warrant the claim that it was the only subject worthy of the Commission's attention.

Bargaining in the Coal Industry.

Moreover, instead of looking backward at the steel strike the Commission would better have looked forward at the threatened coal strike. This has the look of something far more serious to the public than the state of affairs in the steel industry, and the Commission might have noticed that there has been collective bargaining in the coal industry for many years. Indeed collective bargaining has been under development in the coal industry long enough to now include all parts of the country, so that at the meeting held in Cleveland recently it was possible to make arrangements for closing nearly all the coal mines in the country at once, precluding the chance that any territory in which a strike was called might be supplied with coal from any other producing district. This is collective bargaining developed to its highest efficiency, with the public facing a great calamity and apparently helpless. The officials authorized to bargain for the miners collectively, do not offer to "bargain," or negotiate, at all. They have called the strike and their position up to the publication of President Wilson's statement was that unless the operators granted the terms that had been named the mining of coal would cease.

Bargaining With the Railroad Brotherhoods.

One of the railroad brotherhood chiefs is quoted as endorsing the withdrawal of the labor group from the conference, and saying that collective bargaining had been maintained on the railroads for thirty years and had been successful. It is well to have the public reminded of the power of the railroad brotherhoods and their willingness to use it. Collective bargaining with them also has developed to the point where bargaining is not the word for what occurs.

All policies that have to do with industrial relations must be judged by their effects upon the public welfare, and with the coal strike in prospect it is in order to judge whether all the weight of public opinion should be given to promote the complete unionization of industry and the establishment throughout of collective bargaining under highly centralized control.

It is possible to not only agree to the right of labor to organize and bargain collectively but to the desirability of its doing so, in order that it may protect its interests and be represented by leaders of its own choosing, without wanting to see society entirely helpless in the hands of these organizations. The country certainly does not wish to vest all authority over the every-day life of the community in them.

How Labor May Win Its Way.

They have great power now, and their stoutest champions must admit that it is not always used wisely. They will be less likely to abuse it if they do not have everything their own way. The best check upon power is the necessity to justify its use. Organized labor can win its way over all opposition by demonstrat-

ing its service in industry, and public sentiment should require it to win its way in this manner. It should demonstrate that it has the intelligence, understanding of economic law, breadth of view, sobriety of judgment and consideration for the public interests that properly belong with the vast powers to which it aspires, before appealing to the public for absolute control.

The Government is at Washington.

If organized labor is conceded the right to tie up all the industry and commerce of the country at its own will our form of government will have been changed. Authority over the community life will have passed from the regularly elected representatives of the people to the labor organizations. The public wants labor to have a fair show in struggles with capital, but not supreme power. Mr. Gompers is quoted as saying upon the pending bill proposing to forbid strikes on the railroads, that he would not hesitate to enter a just strike despite such a law. This attitude is clearly a mistaken one because it is claiming a supremacy over the law which Mr. Gompers never would concede to his antagonists. It is the first principle of organized society that everybody shall be equal before the law, and that no individual shall put his personal judgment above the law. The overthrow of this principle would mean the destruction of order and government. The rule of reason and of the ballot-box would be overthrown, and society would lapse back to the rule of force.

The Coal Situation.

The coal miners, under agreements with the Federal Coal Administration, have had wage advances aggregating about 70 per cent. since April 1, 1916. The official statement issued by the United Mine Workers, dated October 11, states that figures officially collected show that the average income of miners in Illinois for 1918 was $1,434, in Indiana $1,400, in Ohio $1,450, and in Western Pennsylvania $1,200. The present demands are for a 60 per cent. increase of pay, five working days to the week and six hours to be a day's work.

The agreement under which they have been working, made in 1917, was to be binding until the end of the war, or April, 1920. The operators claim that it is still in force, pending a proclamation by the President that the war is ended. Dr. H. A. Garfield, who as Fuel Administrator made the agreement for the Government, has written a letter to the miners in which he holds that the agreement is still binding, but the miners insist that the war is ended, and wish to have their agreements made and terminated hereafter on November 1, instead of on April 1.

The miners in defence of the five-day week and six-hour day claim that with the miners returned from the army this working arrangement will produce the amount of coal required. The operators deny this, but in any event the argument is a poor one. There is plenty of work on the farms and in other industries, and no necessity for employing labor where it is not needed. The miners also have a grievance on account of lost time in the summer season, which they say often cuts down their earnings even at high rates to amounts insufficient to support a family properly. There is no doubt some basis for this claim. It is said that during the present year car shortage has been responsible for much idle time for the miners.

The operators strongly urge that from now to April 1 next there is an assurance of full time and that at present rates high wages are assured. They object to changing the time of making contracts from April to November, on the ground that delay in making an agreement at the latter is always certain to inconvenience the public.

Reason Should Rule.

The American public is inclined to take a sympathetic attitude toward claims on behalf of the miner, on the ground that the occupation is one of hard labor with a degree of danger attached, but the public has its own just claims to consideration, which the miners and all other organized bodies are bound in fairness to recognize. The public's interest in coal production is vastly greater than that of either miners or operators, and if the latter are in deadlock steps of some kind will have to be taken to protect the public interest.

It is always to be hoped that questions of this kind will be settled by common consent upon principles which may be applied not only in the one case but whenever similar cases arise. There is reason to believe that given time for consideration they will be settled in this manner, for notwithstanding the bitter clashes which occur all men have a sense of what is fair and right, and the great majority desire that what is right shall prevail.

Labor leaders have something to learn, and in this are not different from employers. All people learn from the opposition they meet, and both sides of the industrial controversy may profit in this manner. The members of labor organizations have much to learn about the obligations which attach to bargaining. The first requisite of a bargain is that both parties shall be bound.

In short, the industrial problem is largely a problem of practical education upon the obligations and responsibilities which belong to all parties concerned, and particularly of their responsibilities to the public. It is not merely

or mainly a question of balancing the rights of the contestants or of helping one side against the other.

The real interests of labor are inseparable from the interests of the community as a whole. Labor cannot suffer by having the community welfare safeguarded, and on the other hand whatever injures the latter is injurious to the former. The agitators usually say that the rich at whom their animus is directed do not compose over two or three per cent. of the population. Isn't it a wild idea to think of paralyzing all community life, of freezing or starving the entire population in order to coerce or punish three per cent? Will not 97 per cent. suffer more than 3 per cent?

Further Consideration of the Value of Railroad Properties.

In the October "Bulletin" we published a discussion of the value of railway properties, calling attention especially to the large amount of common stocks sold from time to time by leading railroads to their stockholders at par or better. In this connection an extremely impressive statement as to the value of the Pennsylvania System is made by Mr. A. J. County, Vice-President of the Pennsylvania Railroad Company in a letter recently received by us. He says:

> I am greatly impressed with the clear and concise presentation of the railroad situation which appears in the Bank's October Bulletin, and believe it will be very helpful in acquainting the average stockholder and investor with the nature of the ailments of the roads and the treatment that is essential to rehabilitate them.
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> Referring to the statements as to over-capitalization, I feel that the author would be interested in noting the facts as to the Pennsylvania R. R. Co. as set forth in the attached copy of a memorandum to Mr. T. DeWitt Cuyler, Chairman of the Association of Railway Executives, which shows that during the period December 31, 1900, to December 31, 1917, the years used by Mr. Glenn E. Plumb in his recent charges before the House Committee on Interstate Commerce, the premium on stock issues and conversions amounted to over $40,000,000, and that taking the Pennsylvania Railroad System as a whole the cost of the property exceeds by over $400,000,000 the outstanding par value of the total stock and bonds of the System in the hands of the public.

The Pennsylvania is one of the greatest railroad systems in the world. For 70 years its operations have been conducted with efficiency and its finances handled with conservatism. Its stock is owned by over 113,000 persons. The fact that the Pennsylvania Railroad is under-capitalized by no less than $400,000,000 is of course one of the reasons for its very high credit standing. It should not be overlooked, however, that while 6% was paid on the par of the company's stock, the undercapitalization resulted in 1918 in the payment as interest and dividends to investors of an amount equivalent to only 3.91% of the total property investment of the Pennsylvania System. Notwithstanding the great depreciation in the purchasing power of the dollar, Pennsylvania stockholders are receiving the same moderate rate of dividend as was paid ten years ago, namely, 6%.

New Tentative Valuations.

The Department of Valuation of the Interstate Commerce Commission has recently filed a tentative value of the Boston & Maine System. But since the figures are subject to modification, the Director of the Bureau of Valuation and the receiver of the Railroad Company have decided not to disclose the details at present. The aggregate figures, however, show a valuation of nearly 10% in excess of the total capital issues of the entire system, which amount to approximately $211,800,000. The Company's engineers claim that some elements of value are omitted by the engineers of the Valuation Department and it is therefore expected that the final valuation may show some increase over the tentative figures. Within the so-called Boston terminal area, the lands of the Boston & Maine proper are determined by the Commission to have a value of about $6,300,000, while if the holdings of the subsidiaries within the area be included, the values are nearly $19,000,000. The Boston & Maine has $3,150,000 of preferred stock and $39,500,000 of common stock. The Company has been in the hands of a receiver since 1916. The common stock has a market value today of approximately $32 a share. Between 1901 and 1912, the Boston & Maine sold 176,024 shares of stock realizing $23,593,000, or an average of $134 per share. Some of this stock was sold as high as $196.50 a share.

The net earnings of the Boston & Maine for the half year ended June 30th last, were running at the rate of less than one-half of one per cent. per annum on the value of the property as found by the Interstate Commerce Commission.

Mr. Plumb Refuted.

When the merits of the Plumb plan were called to the attention of Congress by its proponents, the claim was made that the cost of the railroads was over-stated to the extent of some 8 to 10 billion dollars. Now, it is a well known fact that all additions to the book cost of road and equipment since 1907 represent actual cash invested. Therefore, the inflation, if any, dates prior to 1907. In that year the total book cost was, in round figures, 13 billions and the total number of miles of road in the country was approximately 230,000. If Mr. Plumb is right in assuming that the cost of the roads was over-stated by 8 billion dollars, we must conclude that 230,000 miles of road were built at an average of less than $22,000 per mile of road. In 1907 the railroads of the United

States efficiently handled $2,589,000,000 of business. Many of the roads were double tracked, some had three or four tracks. In that year the cost of government owned railroads in New South Wales and Australia was $60,000 a mile, and that of the Inter-Colonial of Canada was over $60,000 a mile. The statement is made on good authority that never in any country could even a single track railroad be built and equipped for $22,000 a mile, or for any amount approaching this sum. This contention is supported by all of the tentative valuations so far reported. The cost of reproduction new per mile of the roads which have been tentatively valued, follows:

Boston & Maine System	$120,000
Kansas City Southern	71,700
Winston-Salem Southbound	61,400
New Orleans, Texas & Mexico	58,700
Central of Georgia	43,800
Atlanta, Birmingham & Atlantic	41,700
Norfolk Southern	36,000
Texas Midland	31,700

These Interstate Commerce Commission valuations, to be sure, are made as of June 30, 1914, and so do not accurately represent the values of the properties in 1907, nevertheless the conclusion is fully justified that none of these roads could have been reproduced in 1907 as low as $22,000 a mile.

Improvement in Railway Earnings.

In the six months period ended June 30th last, the railroads of the country earned $157,000,000 net operating income, equivalent to only 40% of their standard return accrued in that period. In July and August, however, the roads succeeded in earning $169,000,000 net, or more than they had earned in the entire prior six months. This improvment is to be explained in part by an increase in the volume of freight moving, although the volume is still less than it was last year. The following tabulation shows the fluctuations in the net ton miles compared with the same months in 1918 reported by the United States Railroad Administration, from which it will appear that the low ebb of traffic was recorded in the month of April.

January	Increase	11.3%
February	Decrease	12.1%
March	"	14.6%
April	"	24.6%
May	"	11.6%
June	"	13.6%
July	"	9.9%
August	"	10.8%

The operating ratio, that is, the amount consumed out of each dollar by operating expenses, has fallen from a high point of 92¼% in February to 76% in August. As the normal operating ratio is under 70%, it is evident that the ratio is still too high.

Furthermore, it is disturbing to know that one of the reasons for the decrease in operating ratio has been the curtailment of expenditures for maintenance of equipment, which was cut by over 20% during August.

Earlier in the year it appeared that the Railroad Administration would be fortunate if the roads earned as much as $500,000,000 net for the full year, but at the present time, if the current improvement is carried on, the roads should earn very nearly as much as they did in 1918, namely, $680,000,000 . The profit and loss statement of the Railroad Administration covering the operation of the roads for the year 1918 and the first six months of 1919 shows a deficit of $575,549,644.

Rate Increase Imperative.

Even with the betterment in earnings referred to above, the railroads will be in a precarious position if they are returned to their owners on the first of January next without protective legislation. Testifying before the House Committee on Interstate Commerce, Judge Lovett, President of the Union Pacific System, stated: "If you propose to turn the railroads back without making provision for them to collect expenses, it simply means that the railroads which are not very strong financially and not able to weather the storm, will go to the wall and those institutions and people dependent on their securities will go with them."

When Senator Cummins first introduced his bill on September 2nd, his speech indicated that he also was fully alive to the seriousness of the railroads' financial position.

The sober fact confronts us that of the 20 roads that earned over 100% of their standard return in the first six months of this year only 4 operate over 1,000 miles of road, while all of the 20 roads represent less than 6% of the mileage of the country. Considering the railways as one system, they are earning today only about 3½% on their investment. In 1914-1915 when the earnings dropped to approximately 4%, some 40,000 miles of railroad were forced into the hands of receivers.

As it is generally agreed that there is little possibility of increasing the net earnings of the roads by decreasing operating expenses, the situation must be met by an increase in rates.

Government Declines to Ask for Rate Increase.

On October 7th, Director General Hines wrote a letter to the Chairman of the Association of Railway Executives informing him that any proposal for a general increase in rates must come from the railway companies themselves and would not be initiated by the Railroad Administration. In reply to this suggestion the Association adopted a Resolution respectfully insisting that the duty rests upon the Government to restore on its own initiative and by its own action the relationship between

revenues and expenses which the Government, in increasing expenses, has destroyed. The Director General set forth his position in a statement issued a few days ago, as follows: "There is no duty whatever, either legal or moral, resting upon the Railroad Administration to negotiate for the benefit of the railroad corporations rates which it believes to be inexpedient to initiate for its own benefit. On the contrary, the railway companies have the power to protect their interests in this matter just as fully as they have had in the past and they ought to resort to it unless they choose to stand on the rates as they are."

In a resolution introduced in the House, Rep. Fitzgerald (Mass.) indicates his sympathy with the position of the Railway Executives. His Resolution reads:

"Whereas, The operating ratio of all railroads has increased from 65 per cent in 1916 to 87.11 per cent in the first seven months of 1919; and

"Whereas, Anything over 75 per cent is known to be fraught with danger and in many cases indicates an imminence of receivership; and

"Whereas, If the roads are returned to private ownership at the end of the year with the present rate as now intended, bankruptcy must result to many of them, with corresponding evil to thousands of innocent people who look to their representatives in the popular branch for guidance and protection; Therefore be it

"Resolved, By the Senate and House of Representatives of the United States of America in Congress assembled, That Director General Hines be requested to prepare and put into operation at once a system of rates that will give proper service to the public, a reasonable dividend or protection to the investor, so that when the railroads are returned to their rightful owners the honor of the United States Government in handling of these properties will be amply safeguarded."

As there is no time to be lost, we feel strongly that the Railway Executives should move at once to initiate a new schedule of rates even if they are somewhat embarrassed by the fact that the Government is in full possession of their properties.

Discussion of Cummins Bill.

The Cummins Bill in amended form has just been reported from committee to the Senate. We indicated last month some of the objections to this bill but expressed our belief that with certain amendments it would probably reach the heart of the railway problem, which is the rehabilitation of credit. The railroads have only one thing to sell, and that is, transportation; and the price of what they sell is the rate. The restoration of credit therefore depends upon the establishment of adequate and compensatory rates. On this crucial point, Section 6 of the bill in the amended form provides that the rates prescribed for each district shall be as nearly as possible sufficient to produce a net operating income for all the roads in that district of 5½% annually on the value of the property as determined by the Commission. The Commission is also authorized, in its discretion, to increase the fixed return to 6%, but the additional ½% is to be used to cover the cost of non-productive improvements on the property.

Congress Should Instruct the Commission.

We are convinced that it is absolutely essential that Congress shall instruct the rate-making body to maintain rates which will produce a stipulated return, and while we think that the additional ½% should be fixed and not left to the discretion of the Commission, an assured return of 5½% will go a long way towards solving the railroads' problem. Last month we expressed the opinion that a return of 5½% would be the minimum on which it was reasonable to expect new capital to be attracted. In the past, the railroads have been regulated on the theory that they ought to be permitted to earn a reasonable return on the fair value of their property; but the rule was theoretical and not practical, for no one could prove what fair value was, neither could a reasonable return be agreed upon. One of the unknown quantities in the equation is in process of determination as a result of the Federal Valuation Act. The other unknown quantity will be settled if this bill becomes a law.

The Interstate Commerce Commission itself desires Congress to instruct it in the matter of rate-making. The following is an extract from a statement of Commissioner Clark.

"The question of what constitutes just and reasonable returns to the carrier is left for the administrative tribunal to decide, insofar as it could determine rates on that basis. Some people come before us and argue that 3 per cent is liberal enough. Others say that it ought to be more, 6 or 7 or 8 per cent. Now, in the light of all the circumstances, what is a reasonable standard of return for these public service utilities that are subject to governmental regulation at the hands of Congress, through an administrative tribunal to which Congress delegates its powers? I think that it would be simpler, I think it would avoid endless controversy, and would put an end to interminable discussion and argument, if the law laid down the standard which it recognized as reasonable, just as the law lays down the recognized standard of interest rates in the various States."

Government Advances.

The Cummins Bill has been described as the first broad, friendly legislative expression towards the railroads in probably the past fifteen or more years. In addition to the establishment of a minimum rate of return it proposes that the indebtedness of the roads to the Government for capital expenditures during Federal control, is to be funded. The Government is to carry this indebtedness for a period not exceeding ten years at 6% per annum. In view of the need of the railroads to raise large amounts of new capital at once it is very fortunate that they will not be compelled to go into the market at this time for funds to repay the Government's advances which are believed to exceed one billion dollars. The bill also provides for

a return of the working capital that was taken over with the roads, and which is estimated to amount to about $200,000,000.

The Consolidation of Properties.

We have previously indicated our disapproval of that provision of the Bill which empowers the Railway Transportation Board (a new body created by the Act) to group all of the roads of the country into large competing systems of not more than 35 and not less than 20. While the necessity for the absorption of smaller corporations is apparent, there being no less than 1590 companies reporting to the Interstate Commerce Commission, we consider that such impending arbitrary consolidations would have an extremely detrimental effect on the mind of the investor. The policy of the Bill, recognizing that under existing conditions some roads show very large earning power and some roads small earning power, aims to remove this discrepancy through consolidations, and it is well said that somebody must do the unprofitable business and the way to do it is to combine the unprofitable business with the profitable. We believe, however, that a stabilization of railroad credit will result in voluntary consolidations which will prove more efficient agencies of transportation than any that could result from the exercise of arbitrary rulings.

Division of Excess Earnings.

Originally, the Cummins Bill provided that the Government should recapture all earnings in excess of a fair return. In the amended form the Bill provides that if a company secures an operating income above 6%, one-half of the excess between 6 and 7 per cent shall be placed in a company reserve fund and the other half turned over to the Railway Transportation Board for a general railroad contingent fund. Above 7%, the company will place one-fourth of the excess in its reserve fund and three-fourths will go to the general railroad contingent fund. When the reserve fund has accumulated an amount equal to 5% of the value of the property, its accumulation must cease and one-third of the operating income above 6% shall thereafter be retained by the company and two-thirds paid into the general railway contingent fund. The company reserve fund may be drawn upon to pay dividends or interest if the company's income falls below 6%, while the general contingent fund is to be used for the general advance of railway interests.

The constitutionality of the recapture of these so-called excess earnings by individual companies has been called into question, but it is a point on which eminent lawyers differ. In limiting profits the one point that Congress must consider is the necessity of providing an incentive for enterprise and efficiency. In this respect the amended bill marks a substantial advance over the original draft.

The Return of the Roads.

The Railroad Administration is making plans to return the railroads to their owners on December 31st, in accordance with the President's statement. In view of the crippled earning power of the roads we cannot for a moment conceive of Congress permitting the roads to be returned without legislation protecting their financial stability. Mr. Hines has called attention to the impairment of morale in the railroad organization, and it is known that there has been virtually a complete suspension of improvements to railroad property.

With the question of the ratification of the peace treaty absorbing the attention of the Senate and the possibility of an adjournment of Congress for a short period before the opening of the regular session, it seems unlikely that adequate legislation could pass both Houses and be approved by the President before late in December. But we believe that serious injury would be done railroad credit if the approach of the first of the year finds the problem still under discussion. No more important piece of legislation is before the people of the United States and it deserves careful, not hasty consideration. The need for haste would be eliminated if Congress would pass a bill extending the period of the Federal guaranties for a further six months. The Cummins Bill fully recognizes the necessity for a continuation of the guaranties and provides that the standard return shall be continued for four months from the last day of the month during which the bill becomes a law, in which period the Interstate Commerce Commission must readjust the rate structure to bring back the income and outgo of the railways into balance. In England the guaranties have been prolonged by statute for an additional two years with a view to affording time for consideration and formulation of future transportation policies. It is undesirable and should not be necessary to prolong the period of guaranties in this country beyond June 30, 1920.

The Bond Market.

Since the last Bulletin was issued there has been a general improvement in the security market, and while the activity of the early Fall was largely the result of trading among dealers, a real investment demand from private investors and institutions has resulted in a steady tone, with firm prices. During the second week of October the market broadened and the prices of the more active investment issues advanced from two to three points compared with recent quotations. These prices, however, are still about 2½ points below the quotations of last October.

A study of the comparative prices and yields of 35 selected railroad bonds which are widely held by conservative investors shows a deprecia-

tion in prices of from 8 to 30 points as compared with 1917, while the average yield has increased from 4.53% to 5.86%. During the middle of the month there was an upward trend in rails, which was the result no doubt of a realization on the part of investors of the attractiveness of the yields and a feeling of confidence that Congress will pass legislation which will place the companies on a sound financial basis before they are returned to private ownership.

Liberty Issues.

Liberty issues continued strong over the first of the month, the First Liberty Loan Second Converted 4¼s of 1947 reaching a high level of 102. This issue was the result of converting Liberty 3½s into Second 4¼s, and it is estimated that there are only about $3,000,000 outstanding. During the month the Liberty issues became very active, with declines reported in practically all except the 3½s. October 15 was reported the third largest Liberty bond day of the year, with a total turnover on the Stock Exchange of $14,367,000. The high record day was September 9 with a volume of $16,972,500, and the second largest was April 14 with $15,881,500. On October 15 the Stock Exchange reported sales of $5,929,000 Fourth 4¼s. The decline in this issue was credited largely to the liquidation of these bonds, many of which have been carried by the banks at the coupon rate. The banks notified holders that this rate would be advanced on the 25th of the month, and the prices have eased off from the recent high of 94.80 to 93.40.

The demands for totally tax exempt securities continued in large volume, the 3½s reaching 101, the high for the year, compared with 102.50 on August 22, 1918. U. S. Panama 3s of 1961 were also in demand, and a new offering of $1,500,000 Territory of Hawaii 4¼% Bonds proved attractive to large buyers on a 4.20 basis, this issue carrying the same tax exemption privileges as the Liberty 3½s.

New Issues.

New issues for the month were in larger volume with corporate finance still favoring stock issues. The larger corporate issues of bonds and notes were about $35,000,000 compared with $125,000,000 preferred stocks.

The most notable foreign issue in this market since the $500,000,000 Anglo-French loan of 1915 is the offering of $250,000,000 of 5½% notes or bonds of the United Kingdom of Great Britain & Ireland dated November 1, 1919. Subscribers have the choice of notes maturing in three years or bonds maturing August 1, 1929. The notes are offered at 98, to yield about 6¼%, and the bonds at 96¼, to yield a little over 6%. These notes and bonds are payable in New York in dollars, and free of all British taxes. Moreover, they are convertible at the option of the holder into National War 5% Bonds (Internal sterling loan payable at maturity at 105), due February 1, 1929, at the fixed rate of $4.30 per pound sterling.

This issue combines a generous interest yield with a highly probable profit through the exchange and conversion features. The long term maturity in reality is a 9¼-year option on sterling exchange at approximately 4.15, the present prevailing level, assuming 100 as an average price for the National War Loan during that period. Assuming 4.30 for exchange at the maturity of the British War Loan at 105, the 10-year bonds then converted would yield the present purchaser approximately 6.46%. If exchange were then normal (4.86) conversion would result in an interest yield of approximately 7.46%. It is therefore estimated that investors can assume a minimum interest yield somewhere between these limits. Should exchange, however, move toward normal prior to the maturity of the War Loan and conversion and sales are made at an earlier date, the interest return would be materially higher.

The $250,000,000 issue is made to provide funds for the redemption of about $135,000,000 of dollar notes falling due, and for the purchases or payment which the British Government may wish to make in this country. Some part of it may be transferred to private parties having payments to make in the United States.

Preferred Stocks.

Since the first of the year it is estimated that the total issues of preferred stocks by corporations exceed $600,000,000, these figures including issues in excess of $500,000. In addition, a number of corporations have sold large blocks of common stocks. This indicates the confidence of investors in the strong financial position of American industrial corporations which have built up large surpluses and working capital, insuring an ability to pay dividends for an extended period.

Municipal Securities.

The municipal market has been active throughout the month, the demand favoring the higher yield issues. Practically all the new offerings yielding from 4.50% to 4.85% have been quickly absorbed by private investors. Prices have been firm, with the larger cities yielding from 4.20% to 4.50%. The high price of the month was recorded in an issue of $627,000 Springfield, Mass. Serial 4¼% Bonds, which were offered on a 4.05% basis. The more important issues of the month include:

$2,160,000	Chatham County, Ga., 4½% Bonds, to yield 4.75%
3,621,000	Pittsburgh, Pa., 4½% Bonds, to yield 4.20%
1,000,000	City of Toledo 5% Bonds, to yield 4⅝%
900,000	Clarksburg, W.Va., 5% Bonds, to yield 4.85%

The combined average of forty active corporate issues as reported by the Wall Street Journal of October 24 was 82.49, compared with 81.56 on September 24 and 85.07 on October 24, 1918.

Money and the Exchanges.

Money has been in strong demand and up to the last week of October bank loans were increasing. The week ended the 24th ult., saw a small decline in the totals of the Federal reserve banks and of the New York Clearing House banks, but the outlook is for close money through the rest of the year. Call rates have been very uneven, running up to 15 and even 17 per cent. repeatedly. This is of no great significance, however, except as showing that the New York banks have enough to do to keep their commercial customers supplied. The rate to the latter is about 5½ per cent.

The foreign trade of this country in September, summarized, was, exports $593,000,000, imports $435,000,000, trade balance $158,000,000, which compares with a balance of $338,000,000 in August, $225,000,000 in July and $625,000,000 in June. The August balance is the smallest for any month since July, 1917, and the decline shows how easily the situation may turn over against us under the high premiums existing in all foreign markets upon American exchange.

Exchange Rates.

Exchange rates have fluctuated during the past month within about the same rates as before, although the general level is a little lower. The table is as follows:

	Unit Value	Ex. rate Sept. 24	Ex. rate Oct. 27	Discount from mint par
Canada	1.00	.9675	.9637	3.6%
Germany	.2382	.0450	.0350	85.3%
Italy	.1930	.1013	.0962	50.2%
Belgium	.1930	.1163	.1163	39.7%
France	.1930	.1176	.1156	40.1%
England	4.8665	4.1825	4.1800	14.1%
Switzerland ...	.1930	.1795	.1770	8.3%
Holland	.4020	.3750	.3800	5.5%
Denmark	.2680	.2175	.2150	19.8%
Norway	.2680	.2340	.2290	14.6%
Sweden	.2680	.2450	.2410	10.1%
Spain	.1930	.1898	.1925	.3%
Argentine	.9648	.9660	.9650	Par
Japan	.4885	.5100	.5075	3.9%*

* Premium.

The $250,000,000 offering of British bonds in this market of which the details are given in our bond article carries an unusual opportunity to obtain a call on sterling exchange, good for ten years.

The Belgian bond issue which was impending a month ago did not come off, for the interesting reason that London underbid New York on the proposition. A London credit, however, does not afford the most favorable means of making purchases in America, and there probably will be other opportunities to do business with the Belgians. All accounts agree that Belgium is regaining her industrial output faster than any other country on the continent.

International Conferences.

Two very important international conferences have been held in this country during the past month, the cotton conference at New Orleans and the financial conference at Atlantic City. Both were attended by very important groups of business men from Europe. The New Orleans meeting was devoted to the consideration of the cotton industry and occupied with discussions in which American growers and foreign manufacturers met and compared views as to the means by which the industry might be put on a more economical and efficient basis. The Atlantic City meeting was occupied chiefly with the problem of providing credit to enable the countries of Europe to buy what they need in this country. The delegates at both conventions felt that the meetings had been well worth while.

The Silver Market.

The silver market has been in an excited state during the past month, rising on the 29th to $1.28¼ per ounce, under strong demand for remittances to Asia. As the coinage value of the United States silver dollar is $1.29, the price is close to the point at which it would pay to melt our existing stock of silver dollars for sale as bullion. The total stock in the country on October 1, 1919, according to the Treasury figures, was $308,145,759. Of this the sum of $159,090,586 was held at that date in the Treasury against Treasury certificates in circulation. If the price goes above the mint parity these certificates will be gathered up and presented for redemption, but as the certificates are mainly in denominations of $5 and under they may not be presented very rapidly, and it remains to be seen whether the supply of metal thus obtainable will halt the advance. Approximately $260,000,000 of silver dollars have been melted for export since April, 1917. One reason for thinking that a halting point may have been reached is that the silver coinage of Europe is in the same situation, worth more as bullion and for export, than with the mint stamp. If no official obstacles are raised to its exportation a very large amount of silver will be available and it is conceivable that exchange rates between Europe and the United States may be supported by the movement.

General Business Conditions.

The great staple products of the middle west, corn and hogs, have suffered a very heavy decline in the last three months. The last week in July cash corn and September delivery were close to $2 per bushel in Chicago, December touched $1.97½ and May $1.71, while at this time the December delivery is about $1.23. Hogs reached $23.60 in Chicago early in August and now are about $10 below that. These are very heavy shrinkages, and the farmers of the west feel them keenly. They feel that they are taking the brunt of the government's efforts to reduce prices by forcing stores on the market. Nobody has wanted to carry foodstuffs in storage, and as the immediate outlet would not take the current product prices have broken. Of course prices would have had to come down eventually if supplies continued in excess of demand, but the market would have adjusted itself gradually and naturally and nobody would have had any cause for complaint. Instead of this process the market was under artificial pressure, without normal support, and the action was precipitate. The exports of pork products have been declining since June, and in August were less than one-half those of June, a situation very likely due in part at least to the exchange situation.

The decline is in line with the theory that as Europe gets back to normal food production food prices in this country will fall, and that this should lead to other declines. A decline in the purchasing power of the farmer population will affect all industry.

Dairy products on the other hand have advanced recently, after declining in August under the government's cost of living campaign. Butter is up 12½ to 15 cents per pound at wholesale from the low point, which however is little if any above the level at which it was stored in the early part of the season. Exports are large, particularly to Belgium, and in the case of that country have been financed by its government borrowings.

Sugar Supply.

The supply of sugar is so short that the official Sugar Equalization Board, which still has authority over distribution has required a return to the rationing system in the retail trade. There is no shortage as compared with the supply in previous years, as the distribution of sugar in the first nine months of this year was 18 per cent. greater than in the corresponding months of 1918; the shortage is compared with demand. Various opinions are offered as to this increased consumption, one view being that prohibition has caused a larger consumption of soft drinks in which syrups are used, and also of candy, while some take the view that the stocks of dealers and consumers have been privately increased against the probability of higher prices when price-control ceases. For the last two years the United States Government, through the Sugar Board, has bought the entire Cuban crop, the 1918 grinding at 4.61 cents per pound and the 1919 grinding at 5.5 cents. The crop now maturing in Cuba, and from which the sugar supply of 1920 must come has not been bought, and it is probably now too late to buy it, as much of it has already been contracted to private buyers at prices now ranging above 7 cents. The Cuban producers are insisting upon a free market, just as our cotton growers and wheat growers have wanted a free market, and now that the war is over it is improbable that the Cuban Government will coerce them. The world supply is short because of the great falling off of beet-sugar production in Europe; although the Cuban crop now about ready for grinding is the largest ever grown. To sum up, sugar is another article of common use the supply of which has been temporarily reduced by the war, although there seems reason to believe that when Europe resumes normal production the supply will be greater than ever before. The prospect now is for higher prices throughout next year.

Lumber Trade.

The United States National Bank of Portland, Oregon, has issued the fall number for 1919 of its quarterly digest of business conditions. It reports general business conditions very prosperous in that section of the country. The grain crops of Oregon and Washington are the largest ever grown, and fruit crops are at least normal. In Idaho and Montana, however, the crops have been very light on account of drought. The lumber market has had in the last 60 or 90 days the most sensational rise known in many years. Manufacturers are shipping lumber clear through to the Atlantic coast, and are looking for years of prosperity, counting on the rapid exhaustion of the southern forests.

General Trade.

There has been no falling off in trade over the country. Payments through the banks show astonishing figures, 30 to 50 per cent. over a year ago. The pressure for goods is unabated, and naturally there are few instances of a downward tendency in prices, apparently none in manufactured goods. The output of iron and steel has been reduced by the strike, and there is no sign of weakness in that quarter. Building materials are very firm, with talk of higher prices. Textile goods are all in strong demand, with supplies insufficient to meet the demand.

Labor Outlook.

In short, the outstanding feature of the business situation is a shortage of everything, and, resulting therefrom, high prices, labor disturb-

ances, and an outlook clouded by uncertainties. At the moment the threatened strike of the coal miners is the most serious menace, but even if it is adjusted the outlook for industrial peace is not encouraging. The crops are harvested over the world, and while there is enough to feed the world, there is not enough surplus to materially lower the general level of prices, although we have seen that meats have fallen. This situation is fixed until another crop is grown, and calculations must be made accordingly. It does not support the hope that costs may be lowered; on the contrary, influences are still strong in the other direction.

The steel strike has diminished in importance, so far as its own proportions are concerned, almost to the point of disappearance, but remains a menace because organized labor evidently feels that its prestige is involved and it is disposed to exert itself to the utmost to compel some kind of a settlement. The threatened coal strike is a much more serious matter, as the coal industry is thoroughly unionized and coal is a necessity in all industry. If coal mining is suspended, the railroads will soon have to suspend operations and every activity of social life will come to a standstill. The public evidently is not looking for any such calamity. It is assuming that somehow the dispute will be adjusted so that coal production will go on.

An important increase in the price of coal of course would be far-reaching in its consequences, for it would affect all other costs and have bearing upon living expenditures at every point. The consumer would feel it in every purchase, and it would almost surely stimulate other wage demands, all which in turn would come back on the entire wage-earning class including the miners themselves.

Labor Representation in Management.

On account of the general interest in this subject we give space to the following letter and make reply as requested:

The National City Bank of New York,
New York City, N. Y.

Dear Sirs:

Your issue enclosed "Economic Conditions," etc., under date "New York, June, 1919," on page 14 states that in 1914 "the amount of capital in manufacturing within the United States amounted * * * * * for each person employed to * * * * * $2,848." This when discussing labor conditions.

Has it never occurred to you that the "production cost" of the person employed is *capital used in the business;* this to the same extent as is capital invested in the business plant; *and that the use of that capital is an absolute essential to the business?*

If this be conceded, is it not reasonably certain that employes have contributed to, used in, the business of manufacturing a larger amount of capital than have those whose moneys have provided the industrial plants? That is, is it not reasonably certain that the average "production cost" of the employe has been in excess of $2,848?

Those engaged in a common business have usually exercised control of it in the ratio that their capital was used. Such being the custom, what good reason can be assigned for excluding the owners of the *employes* "production cost" *capital* from a fair share; a share based upon their capital used in the business; of the direction of the business in which they are engaged, and to which their contribution of their capital-production cost is an absolute necessity.

And what good reason can be assigned for excluding the owner of the employes' capital, so contributed and so used, from *any* benefit that is accorded to the owner of *any* capital that is otherwise contributed and so used?

I would be very much pleased if your ideas in this connection shall be expressed in your next issue and a copy be mailed to me.

Yours truly,

George W. Towle,

24 California Street, San Francisco, Cal.

We do not think the consideration of Labor from the standpoint of production-cost adds any higher or stronger claims than are usually recognized. The value of an individual in a given occupation is not related to his production-cost, but to his ability and willingness to produce goods or services. Nobody ever hires a man on the basis of what his father has expended on him.

Capital in like manner is rewarded upon the basis of service rendered, as we see by the fact that some investments pay more than others and many are unprofitable.

Practical Cooperation.

Modern industry is essentially cooperative, in the sense that it is mutually helpful and dependent, based upon the division of labor.

The whole industrial organization works together on a gigantic scheme which has gradually and naturally developed. Each individual devotes himself to some one particular work and exchanges services for products with the others. The wage-system is cooperative, the wage-earner contributing his labor and accepting a fixed wage, while the employer contributes the necessary capital and assumes the responsibilities and risks of conducting the business. Most of the criticism of the wage-system is by people who have never had the responsibility of meeting a pay roll, and have but a faint idea of the task of conducting a business successfully.

Labor's interest in industry is very practical; it wants the largest possible return and a certain one. The entire business world, including employers and employes, is intensely practical; it has little use for theories except as they are supported by results, but it is always trying experiments and searching out the best ways of getting results. If the business world had found as the result of experience that the highest degree of productivity in industry was obtained by having all the employes participate in the management, the indus-

tries conducted upon that principle would have driven all the others out of business by this time.

"Cooperative industry," in the sense that all the workers share alike in the management and profits, has been tried, but as a rule has not been successful. The workers usually like it no better than employers, because it does not produce satisfactory results. And the primary reason why it does not produce satisfactory results, put in homely phrase, is that "too many cooks will spoil the broth." The same consistency, continuity and efficiency of management cannot be had from the councils of many as from the councils of a few. Even if all the members of a given company may be called equals in point of intellectual ability, a large company or committee in which all have an equal say is notoriously less efficient than a small group. It was not until one man was put in charge of the Allied armies in the great war that those forces became really effective. There must be a directing head vested with authority in order that any business may be a success. In competition with rivals thus managed cooperative undertakings in which everybody is a proprietor and the business is run by committees usually fail. This is a practical test from which there is no appeal.

Joint Stock Corporation Is Cooperative.

Cooperation as an industrial policy develops naturally. With the progress of education, with the leveling up of the masses of the people, with the spread of experience and the development of intelligence, the cooperative capacity of the people will develop, and we may expect cooperative undertakings to be more successful. It takes a high average of intelligence and character to enable people to cooperate in industry upon absolutely equal terms. There was a very high average in the famous Brook farm experiment, which was a ludicrous failure by any test of business success. It is conceivable, however, that people will learn to cooperate in industry to the extent of putting authority into the hands of a few, selecting the most competent. That kind of cooperation exists now in the joint stock corporation, and it appears there under conditions that are necessary to its success.

The difference between the cooperation which is exhibited in the joint stock corporation, and that contemplated by our correspondent is that in the former every participant must have some permanent stake in the business. He must have an investment in it which is a guaranty that he is interested in its lasting success and that he will not sacrifice its future for an immediate gain. Would our correspondent claim that an employe who denied himself the pleasure of personal expenditures this year in order that he might contribute to the purchase of machinery that would add to the productiveness of the plant in the future was entitled to no more voice in the management of the business than the employe who declined to contribute anything to the fixed plant, or commit himself in any respect to the business in the future, and held himself free to quit on any pay day when he might think the prospects were better elsewhere?

Risks of Business.

The Bureau of Education of the United States Government is issuing a series of "lessons" upon economics, for use in the public schools, and "Community" Leaflet No. 22, for the instruction of high school pupils contains a brief statement of the risks of capital invested in business which may be quoted in this connection. It says:

> Two further sources of risk may be mentioned. The risk of capital invested in business are at their greatest, when a large amount must be put in fixed capital, such as machinery, railroads, and permanent buildings. In some business millions of dollars must be spent and years of time must elapse before a single bit of product is made. In our rapidly changing society it is quite possible that a large part of this investment and expenditure of time and effort may have been wasted. Wants may have changed; new processes may have been invented.
>
> Then, too, our society is so interdependent that a business man may have heavy losses because of happenings over which he had no control, and indeed concerning which he may not have known. For example, when the present great war began in Europe, the price of cotton declined, and many planters and merchants in the South failed in business; that is to say, they could not pay their bills. Their creditors (and this included banks from which they had borrowed and merchants from whom they had bought goods) were in some cases forced into bankruptcy also. These creditors had still other creditors, and there spread over the South, and even into the North, a condition where banks, farmers, and merchants were affected by the fall in the price of cotton.

Cannot Have It Both Ways.

It is a very wise saying that "you cannot eat your cake and have it too," or as they say in England, "you cannot have it both ways." The workman cannot at the same time exercise the authority of a proprietor and also be free of all responsibility and risk in the outcome of the business. Somebody makes a large investment to carry on a modern industry. That is a pledge to the workmen that he intends to carry on the business permanently and upon the common, prevailing conditions as affecting labor. He cannot well promise more, and he would be foolish to make the investment if he did not expect to do this. He may fail, and the workmen may be thrown out of employment, but in that event he has sunk his capital in the effort and there is every reason to believe that he has done his best to keep going. He furnishes the equipment, which represents labor done in the past, assumes the responsibility of paying fixed wages and takes the risks of loss against the chances of profit. If he wants to use more capital than his own, as is usually the case, he enters into the same kind of a bargain for that as

he does for labor—agreeing to pay a fixed return, which the lender accepts without asking for any voice in the management. Authority and responsibility go together. When any party to the undertaking insists upon a guaranteed return he necessarily concedes some compensatory condition to the guarantor, and naturally it is that the latter shall have, if not the full say, at least the chief say in the management of the business.

Labor's Voice in Management.

We do not say that Labor should not have representation in the management. We understand the position of Labor generally to be that it does not ask for representation in determining the general policies, but only upon the conditions which directly surround the employment. If the proposition is thus limited it is comparatively simple, but our correspondent apparently does not so understand it.

We would say that there can be no hard and fast rule about the representation of Labor in the management. It is not a question to be settled by theoretical arguments, but by the test of results. Any scheme under which business is unsuccessful will be worthless to Labor. Every such device is a failure unless production is at least as large as it was before that device was adopted, for if production falls off Labor will get less and it is too practical to sacrifice real benefits. The main thing for Labor is to get ahead as best it can—getting better homes, better education, more comforts, more experience, more knowledge, cooperating with the system which produces these day by day results, and being assured that gains of this kind lead to everything else. The organization of society changes constantly, but gradually, with the development of its individual members. Nothing can stop this natural evolution. It is a great merit of the existing system that it is a developing system, not stereotyped or fixed.

The Problem One For Free Experiment.

Thousands of managers are studying this problem of how to increase industrial efficiency by enlisting more interested cooperation on the part of their employes. A great many plans are being tried and developed, and this is the natural course of progress. Success is likely to be gained more rapidly this way than by the interference of any authority. Any plan imposed by the government or by any such body as the Industrial Commission, would represent the theory of a small group who originated it. Nothing of the kind that is imposed upon industry from the outside can be as adaptable or successful as the methods which are spontaneously developed in the practical operations of industry. The degree and method of cooperation must be adaptable to different industries and different conditions.

The whole problem is one to be worked out by experiment and demonstration. The results will not be the same in all cases. Where the employes are wisely represented and enter cordially into the purpose of making an industry more efficient and more prosperous the results will be beneficial to all parties. On the other hand, if the representatives of the employes use the information and advantages that are conceded to them solely as a means of strengthening their own position in disputes with their employers, and as a basis for demands which do not take all the contingencies of the business into consideration, the experiment in such instances will fail.

Emerson speaks in one of his essays of the development of what he calls "facility of association," as the practical test of civilization. He meant the ability of men to get along together, work together, and plan and strive for the common interest. It requires a certain degree of intelligence, judicial poise, fair-mindedness, receptiveness, toleration, generosity of spirit and mutual confidence. These traits develop as men come together and work together, as they read and reflect and debate, and as accumulations of capital in the form of improved machinery relieve them from exhausting physical labor.

The wage system is a compromise in cooperation advantageous in its simplicity, which enables people to work together in a fair degree of harmony who could not do so in more intimate relations.

Cooperation by Stock Ownership.

The most simple and natural development of cooperation or profit-sharing is through participation by the wage workers in the ownership of the industries in which they are employed. Obviously, if this policy was steadily pursued, it would soon accomplish much in modifying the antagonism between employers and employes. There are 2,000,000 railroad employes in this country, and their average pay last year was over $1,500. If they would make an average investment of $50 per year in the stock of the roads for ten years their proprietary interests would aggregate $1,000,000,000, and the total amount of railroad stocks outstanding is only about $8,000,000,000 par value, at this time selling on a basis of probably $5,000,000,000 or $6,000,000,000. A widespread distribution of railroad shares among employes and the general public would be far more desirable than the ownership of the roads by the government.

Belief in the principles of democracy does not require us to hold that intelligence, thrift, providence and public-spirit are qualities entitled to no weight in the government or direction of industry. If society is to go forward the machinery of organization must be such that these qualities will have some preference and weight in the administration of affairs.

Somebody must supply the fixed investment which every industry requires. Somebody must tie himself to the industry in this sense and have this permanent interest in its future, and, obviously, those who do so are entitled to a more influential voice in the management than those who do not, and it is also in the public interest that they shall have it. It is a just distinction, and the public is interested in the capable management of industry.

It will not do to say that the interest which an individual employe might hope to acquire in a large industry would be too small to furnish an incentive, for no new distribution of wealth or income by averages will make the average skilled workman better off than he is now.

The labor organizations accumulate large funds in their treasuries, and pay out astonish sums for strike purposes, as note the voting of $250,000 recently by the union organization of the garment trade for support of the steel strike. Evidently they might raise large sums for investment in industries, but perhaps wisely they avoid the risks of doing business on their own responsibility.

Moreover, they are frankly opposed to having their members acquire stock in the industries in which they are employed. They seek no development along proprietary lines or in community of interests with employers. Their policy is to organize the employes and oppose them as a solid body to the employing class. The effect is to emphasize and develop class feeling.

A noteworthy manifestation of this policy appeared last month when a group of union switchmen at Chicago refused to handle cars for the Wisconsin Steel Company, a subsidiary of the International Harvester Company, because said Company has a "works council" in operation. This council is a body composed of officials and representatives of the workmen, organized to consider all problems that may arise in the operation of the works.

English Labor Unions Decline Proprietorship.

A striking instance of the attitude of the British labor organization upon this subject of proprietorship has been afforded this year. The British Government having on its hands two great shipyards constructed during the war, recently offered to sell them to the Federation of Engineering and Shipbuilding Trades upon very favorable terms, which were substantially as set out below, the account being from the London Times:

It is understood that two drafts of proposals by the Government were before the conference, one addressed to the Federation of Engineering and Shipbuilding Trades and the other to the Trade Unions of the Shipbuilding and Engineering Industries. The Federation is mainly a consultative body, comprising 42 unions, some of which are but remotely connected with shipbuilding. The first proposal was headed "Draft proposals for taking over Chepstow (National) Shipyards," and the second "Draft proposals for sale of Chepstow and Beachley Shipyards." In each sale the price was left to be agreed upon, the purchase price to be secured by a second mortgage debenture at a rate of interest to be agreed, the purchase price to be paid in such amounts as and when the unions might elect, provided always that the unions should pay an annual installment of not less than an amount to be agreed. To the unions it was proposed that a company be formed to borrow the money requisite for working the business, such sums to be secured by first mortgage debentures. The Government proposed that the unions might borrow from the Government or outside sources upon first mortgage debentures security. In both drafts Beachley power house was excepted from the proposed agreement, subject to arrangements for the supply of light and power to the yards and housing requirements. To the unions it was proposed that the Government should have joint control for the first three years in the matter of appointing the management, after which joint control would cease.

In both sets of proposals it was laid down that hours, rates and conditions of labor should be the same as prevailing from time to time on the north-east coast, and the propositions to the Federation contained the further condition that a yearly portion of the profits be set aside for a superannuation fund for all employes. The unions were given the right to sell land or plant on the Beachley site not required for the business, the money therefrom to go to the part discharge of the second mortgage debentures. Both sets of proposals gave the assurance that the yards would be handed over fit to be worked on a commercial basis, and the draft addressed to the Federation contained an added clause that the negotiations were to be based on the assumption that the Government would place orders for work at the yards upon terms not less favorable to the unions than the prevailing market terms and in such numbers as would keep the yards fully employed for three years at least.

These terms seem to offer a fair opportunity for the unions to come into the ownership of great works with practically a guaranty of plenty of work at fair compensation for three years. It was a chance to secure not only steady wages, but the profits of management, and to demonstrate that high compensation to capitalistic managers was unnecessary. The Federation, however, declined the tender. Its officials did not wish to assume the responsibility of managing the shipyards. They don't want the shipyards on a competitive basis, where a fair test of efficiency could be had. They want the shipyards operated by the Government, backed up by the public Treasury and supported by the general taxing power. The Federation reply was as follows:

"This Federation gave careful consideration to the Government proposals that we control and subsequently purchase the shipyards at Chepstow and Beachley. Opportunity was also taken to consult the Parliamentary Committee of the Trades Union Congress, as a body representing the whole trade union movement of the country. They did not favor the proposal of the Government in reference to these yards. The policy of this Federation is in favor of the development of national resources under public ownership, as submitted in the reports of the Industrial Conference called together by the Government in connection with which the following sentence is quoted from the report: 'The sale

of national ships, shipyards and factories is strongly resented by labor, especially as this has taken place at a moment when ships might have been made of the greatest use in national needs, both in relieving the necessities of the world and preventing the creation of monopolies.' These considerations were strongly supported by the delegates, and the conference decided that they could not accept the offer made, it being against the basic principle of trade unionism. The shipyards are now the property of the nation, and the conference demands that they remain national property and be carried on in the national interest."

The Service of Capital.

We fear that our correspondent above missed the point of the statement relative to the increasing use of capital in industry, which called forth his letter. The census report shows that in 1899 the amount of capital employed in manufacturing was $1,770 to each person employed, while fifteen years later, in 1914, the amount of capital so employed was $2,880 to each person employed. What was the effect of this increased investment of capital? It put more effective equipment at the service of labor, increasing the output, besides having the effect in many cases of reducing the amount of hard manual toil. Moreover, the money-wages of wage-earners increased. The census table shows that in the five years from 1899 to 1904, the number of wage-earners in manufacturing establishments increased 16 per cent. and the total wage-payments increased 30 per cent.; in the five years, 1904-1909, number of wage-earners increased 21 per cent. and wage-payments increased 31 per cent.; in the period of 1909-1914, number of wage-earners increased 6.4 per cent, and total wage-payments increased 19 per cent. These figures and all other industrial reports are so uniform and consistent that they demonstrate the workings of economic law.

We give the table from the official census report again, as it cannot be published too often, showing as it conclusively does the increase of production and the steady distribution of benefits to the wage-earning class from the investment of capital in industry. We would repeat that the figures for 1914 over 1909 are doubtless affected by the demoralization of industry in five months of 1914, resulting from the outbreak of the war. The first effect of the war was to cause much unemployment.

	Percentage of Increase		
	1904 over 1899	1909 over 1904	1914 over 1909
Capital employed	41.2	45.4	23.7
Primary horse-power	33.6	38.5	20.7
Wage-earners, average number.	16.0	21.0	6.4
Total wage-payments	30.0	31.0	19.0
Value of products	29.7	39.7	17.3
Increase added by manufacture.	30.3	35.7	15.8

The Economic Law.

These figures furnish proof of what the leading economists have always asserted, viz: that the profits of capital which are left in industry, or returned to industry for its development, inure to the benefit of wage-earners and consumers, increasing the demand for labor and the distribution of products to the latter. Nothing inures to the capitalist personally except the earnings which he withdraws from business and spends upon himself. The unusual profits, the profits which excite antagonism, and are denounced as "profiteering" as a rule go back into industry for its development. It is true that in instances they may be unfairly obtained, but when they are used in industrial development the public has offsetting benefits. Nothing justifies injustice, but the natural economic law has its own way of correcting injustice. It doesn't always take care of individuals, but it takes care of society. The surplus profits of capital and excess earnings of individuals when invested in production for the public market become public capital, devoted to the common welfare as truly as though paid into the public Treasury.

The sum of it all is that Labor, or to put it differently, the mass of consumers, is the residuary legatee of all surplus wealth above what the rich actually consume. The consumption of the rich is an insignificant share of the total production.

Professor King's Book.

The census figures support the conclusions of Professor King, which we gave last month, to the effect that labor over the average of recent years has had directly not less than 80 per cent of the total proceeds of industry, the remaining 20 per cent representing the total of rent, interest and profits. The recipients of rent, interest and profits, however, as we have seen are accustomed to reinvest a large portion of their incomes for the enlargement of production, and the proceeds of these new investments are distributed in like proportions, viz.: 80 per cent to labor and 20 per cent to capital; and each new addition to the capital fund produces similar results.

We have received a letter from Professor King in which he says:

I have read with great interest your suggestion to the President's Industrial Conference. Thank you for your kindly reference to my book. In turn, I would say that your article appears to me not only sound but most timely and that many more similar sane articles are needed at the present time. The war served to unsettle everything and to set everyone to looking for a road away from work and toward easy riches. They need to be shown how impassable that road really is.